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SUBJECT: AMBASSADOR CALLS ON DFM DENISOV TO DISCUSS
ECONOMIC RELATIONS, DIALOGUES

Classified By: Ambassador John R. Beyrle for Reasons 1.5 (b) and (d).

11. (C) Summary: The Ambassador made his introductory call on First Deputy Foreign Minister Denisov July 17. Denisov and the Ambassador agreed that stronger economic ties could provide for a more stable overall relationship. Denisov said the bilateral economic dialogues envisioned in the Sochi Framework Agreement could facilitate those closer ties. He said he was looking forward to U/S Jeffery's September visit and the second government-to-government dialogue and provided a draft agenda. However, he said the recent government reorganization had caused Russia to delay moving forward with the business-to-business dialogue. In response to Denisov's call for more bilateral trade and investment, the Ambassador noted growing international concerns over the TNK-BP dispute.
End Summary

Economic Ties and Dialogues

12. (C) The Ambassador noted the success of the first government-to-government economic dialogue meeting in Washington in April. He said he hoped we would be able to build on the results of that meeting when U/S Jeffery came to Moscow in late September for the next meeting. He added that it was unfortunate that the problems in the relationship grabbed the headlines while the many areas of close and growing cooperation between Russia and the U.S. tended to not get publicity. The bilateral economic and commercial relationship was one such area - one that could serve as a "shock-absorber," helping keep the overall relationship smooth despite problems elsewhere.

13. (C) Denisov responded that he fully shared the view that strengthened economic ties could provide a foundation for a better overall relationship. The economic dialogues could be extremely useful in that regard. Along with other parts of the Sochi Framework Agreement, they could help bridge the political transitions in both countries. The government-to-government dialogue was off to a good start and he was looking forward to his meeting with U/S Jeffery in September. He passed the Ambassador a proposed agenda for the meeting (faxed to EUR/RUS) that he said focused on trade, investment and global economic issues such as sovereign wealth funds (SWFs) and rising food and energy prices.

14. (C) Denisov said Russia was, however, not ready to discuss the final shape of the business-to-business dialogue. Denisov said he had agreed with Secretary Gutierrez and his other USG interlocutors at the St. Petersburg Economic Forum (SPEF) that there needed to be a link between the business leaders and the government. However, the GOR's recent reorganization had divided foreign trade between the Ministry

of Economic Development (MED) and the Ministry of Industry And Trade. Although MED and the U.S. Commerce Department would seem to be the right government interlocutors, perhaps along with the Presidential Administration and the NSC, MED Minister Nabiullina was not yet ready to agree because she was unsure of her authority.

15. (C) Denisov added that with respect to the business-to-business dialogue, it was easier to work with business organizations rather than individual companies. In that regard, the GOR had welcomed the announcement at the June St. Petersburg Forum that the U.S. Chamber of Commerce's Tom Donohue and Union of Russian Industrialists and Entrepreneurs' (RSPP) Aleksander Shokhin had agreed to hold a regular dialogue. However, Denisov noted that the GOR was concerned that the U.S. Russia Business Council, one of the GOR's long-standing U.S. business partners, had no role in this dialogue. Denisov said both the USBBC and its Russian counterpart, the Russian-American Business Council (after it chooses a new president), should be included in the dialogue before it could be considered part of the Sochi Framework Agreement.

16. (C) Denisov said that longer-term, the United States and Russia should move to a different, more formal, format. The Ambassador cautioned that we would not want to go back to the cumbersome bureaucracy of Gore-Chernomyrdin. Denisov took the point but said Russia's preference would be an Intergovernmental Commission (IGC). Russia currently had 84 IGCs with various countries and while it was not a great format, it was better than all the alternatives.

TNK-BP and Russia's Investment Climate

17. (C) Denisov noted that whether using Russian statistics or the more sophisticated U.S. figures, the trade relationship was too small. Two-way trade was perhaps \$26 billion and two-way investment roughly \$16 billion. Although the symbolic importance of U.S.-Russian economic ties was greater than the statistics, there was room to grow. The Ambassador responded by noting our concern that the ongoing dispute over TNK-BP could have a chilling effect on U.S. and other foreign investment in Russia.

BEYRL